

P-407, 421/CP-89-105 ORDER FINDING TWO ROUTES INELIGIBLE AND
REQUIRING REVISED COST STUDIES AND PROPOSED RATES FOR A THIRD

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of a Petition for
Extended Area Service From the
Nickerson Exchange to the Askov,
Carlton, and Moose Lake
Exchanges

ISSUE DATE: September 17, 1991

DOCKET NO. P-407, 421/CP-89-105

ORDER FINDING TWO ROUTES
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PROCEDURAL HISTORY

On February 21, 1989, customers within the Nickerson exchange filed a petition requesting that the Commission authorize extended area service (EAS) to the Askov, Carlton, and Moose Lake exchanges. At the time this petition was filed, the company serving the Nickerson and Askov exchanges was named Contel of Minnesota, Inc. (Contel). The company's name changed on July 16, 1991 to Contel of Minnesota, Inc. d/b/a GTE Minnesota (GTE Minnesota).¹ The Carlton and Moose Lake exchanges are served by U S West Communications, Inc. (USWC).

On April 27, 1990, the Minnesota legislature enacted legislation regulating the installation of extended area service (EAS) in Minnesota. The legislation specifies the circumstances under which the Commission will require extended area service (EAS). Minn. Stat. § 237.161 (1990).

On June 26, 1990, the Commission met to consider the implications of this legislation for three petitions, including the Nickerson EAS petition. Each of the three petitions sought EAS to areas other than the Minneapolis/St. Paul metropolitan calling area.

On July 5, 1990, the Commission issued its ORDER REQUIRING TRAFFIC STUDIES, COST STUDIES, AND PROPOSED RATES in this matter. In its Order, the Commission directed Contel to submit updated traffic studies for the Nickerson to Askov and Nickerson to Carlton routes. The Commission was concerned that the March 1989

¹ This Order will refer to the company as Contel for all activities prior to the name change (July 16, 1991) and as GTE Minnesota in all post name change contexts.

studies may not reflect current traffic volumes. The Commission was also concerned that the March 1989 studies showed traffic volumes very close to the 50% threshold required in the new EAS law.

On August 3, 1990, Contel filed additional traffic studies.

On September 4, 1990, Contel and USWC filed their cost studies and proposed rates for the Nickerson/Moose Lake EAS route.

On October 8, 1990, USWC filed revised cost studies and proposed rates.

On October 18, 1990, the Minnesota Department of Public Service (the Department) filed its report and recommendation regarding the companies' cost studies and proposed rates.

On November 7, 1990, USWC filed response comments.

On November 9, 1990, Contel filed response comments.

On December 6, 1990, the Department filed a supplementary report.

On July 16, 1991, the Commission granted Contel's petition to be renamed Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota).

On August 20, 1991, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

I. Two Routes Ineligible for Lack of Traffic

This matter involves three proposed EAS routes: Nickerson to the Askov exchange, Nickerson to the Carlton exchange, and Nickerson to the Moose Lake exchange. The Nickerson exchange is adjacent to each of these three exchanges and therefore meets the adjacency requirement of Minn. Stat. § 237.161, subd. 1 (a) (1) (1990). However, for a proposed EAS route to merit further consideration under the new EAS statute, at least 50% of the subscribers in the petitioning exchange (Nickerson) must make one or more calls to the petitioned exchange. Minn. Stat. § 237.161, subd. (a) (3) (1990).

Traffic studies filed by Contel on August 3, 1990 in response to the Commission's July 5, 1990 Order show that fewer than 50% of Nickerson subscribers make one or more calls per month to the Askov exchange and that fewer than 50% of Nickerson subscribers make one or more calls per month to the Carlton exchange. Therefore, these routes do not qualify for further consideration.

II. The Nickerson-Moose Lake Route: Revised Cost Studies and Proposed Rates Required

The Nickerson-Moose Lake proposed EAS route is entitled to further consideration because Nickerson is adjacent to the Moose Lake exchange and the traffic studies show that more than 50% of Nickerson's subscribers make one or more calls per month to the Moose Lake exchange.

The Commission must poll Nickerson subscribers to determine whether there is adequate subscriber support to require the installation of EAS between the Nickerson and Moose Lake exchanges. Minn. Stat. § 237.161, subd. 1 (2) (1990). Before doing so, however, the Commission must set EAS rates for that route so that Nickerson subscribers will know before balloting, as required by Minn. Stat. § 237.161, subd. 1 (a) (3) (1990), what the proposed EAS would cost them.

The Commission sets these rates based on cost studies filed by the telephone companies that would experience costs due to the installation of the proposed EAS. In this case, the affected telephone companies are GTE Minnesota and USWC. The companies have submitted cost studies for the route in question. However, the costs studies are inadequate and must be revised, as explained more fully below.

A. Traffic Studies: the Basis for Reliable Cost Studies

Reliable cost studies require the best possible data regarding traffic volume. Overestimation of traffic volume may result in the companies over-collecting access contribution until the Commission re-evaluated the EAS rates based on actual traffic volume in the settle up procedure. Inflated traffic volume would also lead to excessive investment in EAS facilities.

Unfortunately, the traffic data used by the companies is inadequate. The companies have not developed to date a satisfactory traffic study methodology that they apply uniformly to produce reliable and comparable results. For instance, Contel and USWC each chose a different time period to conduct their traffic studies and applied dissimilar traffic collection techniques.

To overcome these deficiencies, the Commission will require the companies to take the same steps that the Commission has required recently in similar circumstances.² The Commission will direct

² See In the Matter of the Petition for Extended Area Service From Iron Trail United Communities, Docket No. P-421, 407/CP-87-747, ORDER REQUIRING REVISED TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES FOR TWELVE SPECIFIED ROUTES (September 17, 1991 and In the Matter of a Petition for Extended Area Service From the Bena Exchange to the Cass Lake and Bemidji

the companies to consult with each other and the Department to select a dependable and uniform traffic study methodology (including, for example, the same traffic study period) that they both will employ. In sum, it is essential that the companies use the same and the best methodology available.

To assure the coordinated approach to traffic studies, the Commission will also require the companies to consult with each other and the Department after a uniform traffic study methodology is selected and before conducting the traffic study according to the new methodology to further verify uniformity of approach. Finally, the Commission will require the companies to identify the traffic study methodology and study period used to determine the traffic volumes in their refiled cost studies.

B. Cost Studies

In addition to identifying the traffic study methodology used to determine the traffic volumes in their refiled cost studies, the companies' cost studies will give similar treatment to several other items.

1. Contel's Rate of Return

The cost studies should use the current rate of return adopted for Contel in Docket No. P-407/C-90-906.

2. Lost Toll Contribution

Cost studies should include and proposed rates should recover lost toll contribution, not all lost toll revenue. The EAS statute requires rates that render the affected telephone companies income neutral, not revenue neutral. Minn. Stat. § 237.161, subd. 2 (b) (1990).

3. Stimulation Factor

It is anticipated that if EAS becomes available for the petitioned routes the availability of EAS will stimulate subscribers in the affected exchanges to increase the number and duration of calls that formerly would have been toll calls. To calculate the amount of facilities and operating costs that will be required to provide the requested EAS, it is necessary to estimate the level of EAS calling that will occur once EAS is installed. The percentage increase in such calling occasioned by the switch to EAS translates into an EAS stimulation factor. The EAS rate must properly take into account the amount of facilities and operating expenses that will be necessary to accommodate this increased calling.

Exchanges, Docket No. P-501, 421/CP-90-357, ORDER REQUIRING REVISED COST STUDIES AND PROPOSED RATES (September 17, 1991).

Although there is little empirical substantiation, all parties currently agree that a 400% stimulation factor is reasonable. The Commission will require the companies to file cost studies and proposed rates using that stimulation factor. However, in part because the stimulation factor is questionable, the Commission will require a settle up procedure after EAS is established and in operation to adjust rates based on the stimulation that actually occurs.

4. Gross Receipts Tax

In a number of recent EAS cases, the Commission has found it reasonable to include a 1% gross receipts tax factor in required cost studies.³ The Commission finds no reason to depart from this level in this case and will order the companies to use that factor in the cost studies required by this Order.

5. Polling Costs

Once the Commission sets rates for Nickerson, the petitioning exchange, the Commission will poll the subscribers in those exchanges pursuant to Minn. Stat. § 237.161 (1990). The Commission, then, will bill GTE Minnesota, the telephone company serving Nickerson, to recover the expenses incurred in its polling as part of the overall regulatory expenses associated with this proceeding. Minn. Stat. § 237.295, subd. 2.

Because Minn. Stat. 237. 161, subd. 3 (b) (1990) assures that EAS will leave telephone companies income neutral, GTE Minnesota should include its best estimate of the one-time, non-recurring costs of conducting the poll, except the postage cost incurred to return the ballots.

C. Rates Issues

1. Contel's Access Rate

The cost studies should use the current rate of return adopted for Contel, 10.44%. In the Matter of a Joint Petition by the

³ The Commission adopted the 1% gross receipts level in setting rates for the metropolitan area exchanges and for all the non-metropolitan exchanges considered to-date: North Branch, Buffalo, Cambridge, Delano and Lindstrom. See, e.g. In the Matter of the Petition of Certain Subscribers in the Lindstrom Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-407, 421/CP-86-526, ORDER REQUIRING REFILED COST STUDIES AND INFORMATION REGARDING LOWER COST ALTERNATIVE (July 31, 1991). See also In the Matter of the Petition for Extended Area Service From Iron Trail United Communities, Docket No. P-421, 407/CP-87-747, ORDER REQUIRING REVISED TRAFFIC STUDIES, COST STUDIES AND PROPOSED RATES FOR TWELVE SPECIFIED ROUTES (September 17, 1991).

Department of Public Service and the Office of the Attorney
General for a Commission Investigation of the Level of Rates
Charged by Contel of Minnesota, Inc., Docket No. P-407/C-90-906,
ORDER ACCEPTING OFFER OF SETTLEMENT AND STIPULATION
(FEBRUARY 13, 1991.

2. Cost Allocation

The EAS statute requires the Commission to allocate between 50% and 75% of the cost of EAS to Nickerson, the petitioning exchange. Minn. Stat. § 237.161, subd. 3 (1990). However, the Commission need not decide at this time what percentage of EAS costs (between 50% and 75%) it will allocate to Nickerson.

Instead, the Commission will require the companies to file two sets of proposed rates for the proposed route. One set will allocate 50% of the costs to Nickerson; the other will allocate Nickerson 75% of the costs. With the exact rates at hand, the Commission will be in a better position to see how these rates would affect the Nickerson subscribers and will be better able to prescribe rates that treat them most fairly, within the statutory framework.

D. Settle Up Filing

As previously noted, the actual amount of traffic that will be stimulated between Nickerson and Moose Lake if EAS is installed is unknown. It is impossible, therefore, to determine at this time the precise impact that EAS will have on toll contribution. Most likely, therefore, the EAS rates established for Nickerson before polling will not leave the affected telephone companies income neutral as required by Minn. Stat. § 237.161, subd. 3 (b) (1990). To assure that the EAS rates are adjusted as soon as possible to render the companies income neutral, the Commission will direct GTE Minnesota and USWC to make a settle up filing within one year of the installation of EAS between these exchanges.

In their settle up filings, the companies will indicate what modifications in EAS rates, if any, need to be made to leave the companies income neutral. To promote the comparability and accessibility of the companies' settle up reports, the Commission will require them to address the topics delineated for settle up treatment in the Commission's March 8, 1991 ORDER AFTER RECONSIDERATION OF THE COMMISSION'S JANUARY 25 AND FEBRUARY 1, 1991 ORDERS AND ORDER ESTABLISHING RATE in the Metro EAS Case. The reports will take into consideration actual lost access contribution for calls between exchanges that have received EAS. The companies will report their actual experience regarding the gross receipts tax, growth stimulated due to EAS, access contribution lost due to EAS, and investment transferred to EAS.

ORDER

1. The proposed EAS route between the Nickerson exchange and the Askov exchange and the proposed EAS route between the Nickerson exchange and the Carlton exchange are found ineligible for further consideration for failure to meet the traffic requirement of Minn. Stat. § 237.161, subd. 1 (a) (3) (1990).
2. The proposed EAS route between the Nickerson exchange and the Moose Lake exchange meets the adjacency and traffic requirements of Minn. Stat. § 237.161, subd. 1 (a) (1990). Consideration of this route shall proceed as set forth in this Order.
3. Within 30 days of the date of this Order, Contel of Minnesota d/b/a GTE Minnesota (GTE Minnesota) and U S West Communications, Inc. (USWC) shall meet and confer with the Minnesota Department of Public Service (the Department) to develop a more accurate traffic study methodology. The new traffic study methodology shall include the same parameters for both companies, e.g. same time period for collection of data and the same traffic data collection techniques for both companies.
4. After jointly selecting the traffic study methodology that they will use but prior actually conducting their traffic studies according to the new method, GTE Minnesota and USWC shall consult with each other and the Department.
5. Within 90 days of the date of this Order, GTE Minnesota and USWC shall refile cost studies and proposed rates for the EAS route between the Nickerson exchange and the Moose Lake exchange. The cost studies shall:
 - a. include a narrative explanation of the methodology used to collect the traffic data upon which the cost studies and proposed rates are based, including a summary of any discussions regarding the traffic study methodologies that took place between the Department and the companies;
 - b. meet all the requirements of Minn. Stat. §237.161;
 - c. include only lost toll contribution rather than all lost toll revenue;
 - d. use and state that it uses a stimulation factor of 400%;
 - e. use a gross receipts tax factor of 1%;

- f. include two rate design alternatives: one placing 75% of the costs on the Nickerson exchange with 25% placed on the Moose Lake exchange and the other placing 50% of the costs on the Nickerson exchange with 50% placed on the Moose Lake exchange; and
 - g. include an estimate of the one-time, non-recurring polling costs, except postage costs, for the Nickerson exchange.
6. Within 150 days of the date of this Order, the Department shall file its report and recommendation regarding the new cost studies and proposed rates with the Commission and serve copies on GTE Minnesota, USWC and the petition sponsor. The Department's report shall include its recommendation regarding the rates that should be included on the ballots.
7. Within 20 days after the Department files its report pursuant to Ordering Paragraph 6, the parties may file comments on the report.
8. Within one year after the implementation, if any, of EAS between the Nickerson and Moose Lake exchanges, GTE Minnesota and USWC shall make a settle up filing with the Commission and serve a copy on the Department, each other, and the petitioner. In their settle up filings, the companies shall identify what modifications in EAS rates, if any, are required to achieve income neutrality in light of actual lost access contribution for calls between the exchanges and the actual level of stimulation that has occurred in the exchanges. The companies shall report their actual experience regarding the gross receipts tax, growth stimulated due to EAS , access contribution lost due to EAS, and investment transferred to EAS.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)